

Message Text

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ORIGIN EB-07

INFO OCT-01 AF-10 ARA-10 ISO-00 EUR-12 EA-07 IO-13
INT-05 SS-15 NSC-05 GSA-02 L-03 FRB-03 OMB-01
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COME-00 INR-07 LAB-04 NSAE-00 OIC-02 EPG-02
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APPROVED BY: EB/ISM:JSTJOHN, ACTING
COMMERCE:AMACONE
TREASURY:TDULANEY
INTERIOR:HSCHROEDER
EA/EP:MHENDERSON
ARA/ECP:ACOOLEY
AR/EP:DMCCLELLAND
EUR/RPE:ECASEY
IO/IEP:EBRUCE
EB/PAS:EHARRELL
ANA MAKE C O R R E C T E D C O P Y (TWO ADDEES SAME LINE
ORIG TRANSMISSION)

-----040701 221146Z /10

R 102230Z JUN 77
FM SECSTATE WASHDC
TO AMEMBASSY BONN
AMEMBASSY CANBERRA
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY OTTAWA
AMEMBASSY PARIS
AMEMBASSY TOKYO
INFO AMEMBASSY KINSHASA
AMEMBASSY JAKARTA
AMEMBASSY LIMA
AMEMBASSY LUSAKA
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C O R R E C T E D C O P Y - HEADING

E.O. 11652:N/A

TAGS: EMIN, IEGC, UNCTAD

SUBJECT:UNCTAD/COPPER:SPECIFICATIONS FOR FEASIBILITY STUDY

REF: GENEVA 4050

1. AS REPORTED REFTTEL, SECOND PREPARATORY MEETING RE-ESTABLISHED INTERGOVERNMENTAL EXPERT GROUP ON COPPER (IEGC) ABILITY OF IEGC TO DO EFFECTIVE JOB WILL DEPEND, IN LARGE PART, UPON UNCTAD SECRETARIAT'S SPEED AND EFFECTIVENESS IN CARRYING OUT (OR CONTRACTING FOR) FEASIBILITY STUDY OF PRICE STABILIZATION MECHANISMS FOR COPPER, WHICH IS BASIC TO TASK OF IEGC. AT MAY MEETING, US DEL CALLED UPON IEGC CHAIRMAN (HALL, OF AUSTRALIA) TO ESTABLISH CONSULTATIVE MACHINERY, USING PERMANENT GENEVAREPRESENTATIVES, BY WHICH IEGC COULD GUIDE WORK OF SECRETARIAT WITH REGARD TO DESIGN AND PROGRESS OF FEASIBILITY STUDY. NEED FOR THIS STEP BECAME EVIDENT A FEW DAYS AFTER THE MEETING, AS RESPONSIBLE SECRETARIAT OFFICIAL (DAWSON) REPORTEDLY TOOK POSITION THAT SECRETARIAT IS NOT REQUIRED TO DO ANYTHING UNTIL IEGC DECIDES WHAT SORT OF STUDY IT WANTS. SINCE IEGC PHYSICALLY UNABLE TO MEET UNTIL AUGUST OR SEPTEMBER, AND IS SUPPOSED TO COMPLETE WORK BY NOVEMBER, FEASIBILITY STUDY WILL NOT BE AVAILABLE TO IEGC UNLESS "CONSULTATIVE MACHINERY" CAN BE MADE TO WORK.

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2. THIS FEASIBILITY STUDY WILL BE AN IMPORTANT ELEMENT IN THE DECISION WHETHER TO CONVENE A NEGOTIATING CONFERENCE AND WILL ALSO, IF THAT DECISION SHOULD BE AFFIRMATIVE, PROVIDE COMMON ANALYTICAL UNDERPINNING FOR THE NEGOTIATION ITSELF. THUS WE BELIEVE IT VITAL THAT THE STUDY BE AS COMPREHENSIVE AND AS PROFESSIONALLY EXECUTED AS POSSIBLE. SINCE IEGC CAN DO LITTLE WITHOUT FEASIBILITY STUDY IN HAND, OBJECTIVE SHOULD BE TO GET SECRETARIAT WORKING IMMEDIATELY (EITHER ON STUDY ITSELF OR ON HIRING CONSULTANT), AND TO HAVE FINISHED PRODUCT DISTRIBUTED TO IEGC NOT LATER THAN END OF SEPTEMBER. IF SHORTNESS OF THIS DEADLINE AND COMPREHENSIVENESS OF THE FOLLOWING SPECIFICATIONS SHOULD PROVE INCOMPATIBLE, WE FEEL STRONGLY THAT THE SPECIFICATIONS SHOULD PREVAIL; AD HOC COMMITTEE CAN EXTEND LIFE OF IEGC IF THAT SHOULD BECOME NECESSARY.

3. FOR GENEVA: PLEASE CONTACT PERMANENT REPS OF APPROPRIATE COUNTRIES ASAP, SEEK TO OBTAIN AGREEMENT ON SPECIFICATIONS ALONG LINES OF THOSE IN THIS CABLE, AND PRESENT SPECS TO SECRETARIAT, INSISTING THAT WORK BE STARTED IMMEDIATELY. IF POSSIBLE, CONTACT WITH SECRETARIAT SHOULD BE MADE BY OR THROUGH AUSTRALIAN REP, ACTING AS (OR FOR) CHAIRMAN OF IEGC.

4. FOR OTHER ACTION ADDRESSEES. PLEASE PASS COPY OF OUR DRAFT SPECIFICATIONS TO APPROPRIATE OFFICIAL OF

HOST GOVERNMENT, AND URGE THAT HOST COUNTRY'S GENEVA
REP BE INSTRUCTED TO JOIN WITH OURS IN INSISTING THAT
WORK BEGIN IMMEDIATELY ON FEASIBILITY STUDY ALONG LINES
OF THESE SPECIFICATIONS.

5. FOR CANBERRA: IEGC CHAIRMAN IS G.J. HALL, AUSTRALIAN
COMMERCIAL COUNSELOR IN PARIS. THIS EFFORT WOULD BE MOST
EFFECTIVE IF CONTACT WITH SECRETARIAT IS MADE BY HALL,
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OR BY AUSTRALIAN GENEVA REP ACTING FOR HIM IN THAT
CAPACITY. PLEASE SOLICIT GOA'S COOPERATION IN ISSUING
APPROPRIATE INSTRUCTIONS.

6. FOR INFO ADDRESSEES: SINCE THE COPPER DELEGATIONS
OF SEVERAL COUNTRIES, PARTICULARLY THOSE OF PERU AND
MEXICO, TEND TO REACT WITH AUTOMATIC HOSTILITY TO ANY
INITIATIVE WITH WHICH THE US IS PROMINENTLY ASSOCIATED.
WE PREFER THAT INFO ADDRESSEES MAKE NO RPT NO
APPROACH TO HOST GOVERNMENTS ON THIS SUBJECT. GENEVA
REPS, ACTING AS INFORMAL COMMITTEE OF IEGC, MAY BE
IN BEST POSITION TO DECIDE HOW AND TO WHAT EXTENT OTHER

IEGC PARTICIPANTS SHOULD BE BROUGHT INTO THIS QUESTION.
IF SUBJECT ARISES IN COURSE OF NORMAL CONTACTS, EMBASSIES
SHOULD (IF APPROPRIATE) DRAW ON THIS CABLE TO POINT OUT
IMPORTANCE OF THOROUGH AND PROFESSIONAL FEASIBILITY STUDY
TO WORK OF IEGC AND TO ANY NEGOTIATION WHICH MAY TAKE
PLACE. THIS STUDY RESPONDS DIRECTLY TO CALL BY G-77 SPOKES-
MEN FOR GREATER SPECIFICITY IN UNCTAD PREPARATORY MEETINGS.
AS IT WOULD FOCUS PRECISELY ON THE MECHANISMS PROPOSED
BY G-77 FOR COPPER PRICE STABILIZATION, IT CANNOT BY
ANY STRETCH OF IMAGINATION BE CONSIDERED A DELAYING TACTIC.
THUS ATTEMPTS TO CRIPPLE STUDY, BY IMPOSING UNREALISTIC
DEADLINES OR OTHER MEANS, DO NOT SERVE LDC PRODUCER-
COUNTRY INTERESTS.

7. DRAFT SPECIFICATIONS ARE AS FOLLOWS: BEGIN TEXT:
DRAFT SPECIFICATIONS FOR IEGC/UNCTAD FEASIBILITY STUDY

THE FEASIBILITY STUDY SHOULD CONSIST OF TWO MAJOR
PARTS, THE FIRST BEING A SET OF COMPUTE ESTIMATES BASED
ON WELL-DEFINED ASSUMPTIONS AND VARYING SCENARIOS, AND THE
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SECOND BEING AN OPERATIONAL ANALYSIS WHICH SPELLS OUT THE
INTERNATIONAL AND NATIONAL PROCEDURES AND MEASURES THAT
WOULD BE NEEDED TO IMPLEMENT THE VARIOUS TYPES OF COPPER

AGREEMENT.

PART I THIS SECTION WOULD INVOLVE THE USE OF A FAIRLY EXTENSIVE ECONOMETRIC OR COST-ENGINEERING MODEL OF THE WORLD COPPER INDUSTRY. SINCE THE TIME AVAILABLE TO THE INTERGOVERNMENTAL EXPERT GROUP ON COPPER (IEGC) IS SHORT AND A LARGE PART OF ITS TASK CANNOT BE BEGUN UNTIL THE RESULTS OF THE FEASIBILITY STUDY ARE IN HAND, IT WOULD BE MORE PRACTICAL TO PURCHASE THE USE OF AN EXISTING MODEL, MODIFYING IT AS NECESSARY, THAN TO BUILD AN ENTIRELY NEW MODEL. SUCH MODELS ARE AVAILABLE COMMERCIALY THROUGH COMMODITIES RESEARCH UNIT (CRU), CHARLES RIVER ASSOCIATES (CRA) AND WHARTON ECONOMETRIC FORECASTING ASSOCIATES (WEFA). OTHER COPPER MODELS ARE AVAILABLE, BUT MOST APPEAR INFERIOR FOR THE PURPOSES OF THE INTEGRATED PROGRAM. SOME INVESTMENT ORIENTED RATHER THAN PRICE ORIENTED, AND OTHERS ARE EARLY MODELS WHICH HAVE NOT BEEN RECENTLY UPDATED. THE MODEL CHOSEN WOULD HAVE TO BE ADAPTED TO

- TAKE ACCOUNT OF INDUCED EFFECTS ON PRIVATE INVENTORY BEHAVIOR,
- TAKE ACCOUNT OF ANY DIFFERENCES BETWEEN NATIONALLY OWNED AND PRIVATELY OWNED COPPER PRODUCING FIRMS AS REGARDS SUPPLY RESPONSE TO CHANGES IN PRICE, AND

-- PROVIDE FOR SUFFICIENT DISAGGREGATION OF OUTPUT TO PERMIT ANALYSIS OF ECONOMIC IMPACT UPON MAJOR INDIVIDUAL PRODUCING AND CONSUMING COUNTRIES OR REGIONS, INCLUDING SOCIALIST BLOC COUNTRIES.

THE IEGC TERMS OF REFERENCE CALL FOR STUDY OF THE FEASIBILITY, COSTS, BENEFITS AND FINANCIAL IMPLICATIONS OF THREE TYPES OF ARRANGEMENT:

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- (1) A PURE BUFFER STOCK ARRANGEMENT
- (11) A PURE SUPPLY MANAGEMENT SCHEME
- (111) A BUFFER STOCK COMPLEMENTED BY SUPPLY MANAGEMENT MEASURES

IN ORDER TO GIVE PROPER COVERAGE TO THE RANGE OF MEASURES WHICH MIGHT BE EMPLOYED, PART (111) ABOVE SHOULD CONSIST OF AT LEAST THREE ALTERNATIVE ARRANGEMENTS IN WHICH THE USE OF BUFFER STOCKS AND SUPPLY MANAGEMENT MEASURES ARE COMBINED IN VARYING PROPORTIONS. IN EACH CASE THE OBJECTIVE SHOULD BE TO MODERATE PRICE FLUCTUATIONS WITHOUT ALTERING THE LONG TERM TREND. THE PRICE TO BE STABILIZED SHOULD BE THE LME CASH PRICE FOR WIREBAR. THE STUDY SHOULD LIST, AND ASSESS THE MERITS OF, ALTERNATIVE MEANS OF IDENTIFYING THE LONG TERM TREND.

A SUFFICIENT NUMBER OF COMPUTER SIMULATIONS MUST BE RUN TO GENERATE SOLUTIONS UNDER A NUMBER OF VARYING REASONED ASSUMPTIONS (OR APPROACHES) WITH REGARD TO THE UNDERLYING PRICE TREND OF COPPER; BAND WIDTH OF PERMISSIBLE PRICE FLUCTUATION (SXA 15 PERCENT IS SUGGESTED AS THE STARTING POINT); GNP GROWTH IN CONSUMING COUNTRIES; THE RESPONSE OF SUPPLY IN DIFFERENT COUNTRIES TO CHANGES IN DEMAND; RULES GOVERNING MARKET INTERVENTION; ETC. THE MODEL SHOULD IN EACH CASE, SOLVE FOR, AND THE ANALYSIS PROVIDE INSIGHTS INTO, BUFFER STOCK SIZE; EXTENT OF SUPPLY CONTROL AUTHORITY REQUIRED; LONG TERM EFFECT ON PRICE AS COMPARED WITH BASE-LINE OR "CONTROL" SET OF ASSUMPTIONS NOT EMPLOYING MARKET INTERVENTIONS; AND IMPACT ON MAJOR PRODUCING AND CONSUMING COUNTRIES OR REGIONS, PARTICULARLY WITH REGARD TO THE EFFECT UPON COPPER PRODUCTION, CAPACITY EXPANSION, CONSUMPTION, TRADE, EXPORT REVENUE, EMPLOYMENT LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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AND/OR COST OF INVOLUNTARY INVENTORY ACCUMULATION. IN REGARD TO BUFFER STOCK SIZE, THE STUDY SHOULD EXAMINE WHETHER THERE IS AN IDENTIFIABLE RELATIONSHIP (RATIO) IN THE COPPER MARKET BETWEEN STOCK LEVELS AND CONSUMPTION LEVELS (OR RATE OF CHANGE IN CONSUMPTION) WHICH

CORRELATES WITH PERIODS OF STABLE PRICE. SUCH A RELATIONSHIP, IF IT EXISTS, COULD BE HELPFUL IN FORMULATING OPERATING RULES FOR BUFFER STOCK MANAGEMENT.

THERE SHOULD ALSO BE A CAREFUL ANALYSIS OF THE FINANCIAL, ECONOMIC, AND OPPORTUNITY COSTS ASSOCIATED WITH EACH MEASURE STUDIED, BOTH IN THE ABSOLUTE SENSE AND AS COMPARED WITH THE BENEFITS GAINED FROM THE PRICE STABILIZATION ACHIEVED. IN THIS REGARD THE STUDY SHOULD USE, AND ASSESS THE APPROPRIATENESS OF, A MARGINAL COST APPROACH AND A DISCOUNTED PRESENT VALUE APPROACH, AS WELL AS ANY OTHERS WHICH MAY APPEAR USEFUL. IT IS ESSENTIAL THAT THE STUDY TAKE FULL ACCOUNT OF -- THE EFFECT OF ANY CHANGES IN PRIVATE STOCKING BEHAVIOR IN RESPONSE TO THE MEASURES EMPLOYED, -- THE EFFECT OF SPECULATION AGAINST A BUFFER STOCK OPERATING UNDER PRESCRIBED INTERVENTION RULES. THE STUDY SHOULD ALSO CONSIDER THE EFFECT UPON THE MARKETS OF OTHER METALS PRODUCED FROM COPPER BEARING ORES, AND THE EFFECT OF SCRAP AVAILABILITY.

PART II - OPERATIONAL

THIS PART OF THE STUDY SHOULD DESCRIBE IN DETAIL -- ALTERNATIVE OPERATIONAL PROCEDURES NEEDED TO IMPLEMENT SPECIFIED STABILIZATION MEASURES,

-- THE EFFECT OF SUCH PROCEDURES ON EXISTING INTER-
NATIONAL TRADING AND MARKETING PRACTICES AND MARKET
CHANNELS,
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-- WHICH ASPECTS OF A COMMODITY AGREEMENT FOR COPPER
WOULD BE THE PRINCIPAL POINTS FOR NEGOTIATION AMONG
PARTICIPATING COUNTRIES, AND

-- ENFORCEMENT AND MONITORING MECHANISMS WHICH
COULD BE USED WITH REGARD TO SUPPLY MANAGEMENT. END TEXT.
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